

ELK RAPIDS HOUSING COMMISSION  
ELK RAPIDS, MICHIGAN  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name ELK RAPIDS HOUSING COMMISSION	County ANTRIM
Fiscal Year End SEPTEMBER 30, 2006	Opinion Date FEBRUARY 23, 2007	Date Audit Report Submitted to State MARCH 17, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
☒

☒ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Control and Compliance	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	License Number 11050

ELK RAPIDS HOUSING COMMISSION  
**TABLE OF CONTENTS**  
September 30, 2006

	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS (MD &amp; A)</u>	3-6
<u>FINANCIAL STATEMENTS</u>	
Basic Financial Statements:	
Fund Financial Statements:	
Proprietary Fund:	
Statement of Net Assets	7-8
Statement of Activities	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-19
 <u>SUPPLEMENTAL INFORMATION</u>	
Fund Financial Statements:	
Proprietary Fund:	
Combining Statement of Net Assets	20-21
Combining Statement of Activities	22
Combining Statement of Cash Flows	23-24
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	 25
Financial Data Schedule	26-29
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	30-31
Adjusting Journal Entries	32

## INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Elk Rapids Housing Commission  
Elk Rapids, Michigan

I have audited the accompanying financial statements of the business-type activities of the Elk Rapids Housing Commission, Michigan, a component unit of the Village of Elk Rapids, as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Elk Rapids Housing Commission, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Elk Rapids Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated February 23, 2007, on my consideration of Elk Rapids Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on page 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that comprise Elk Rapids Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Barry E. Staudt, CPA, PC*

February 23, 2007

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
September 30, 2006  
=====

Elk Rapids Housing Commission, created in 1971, by the Village of Elk Rapids provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for Elk Rapids Housing Commission consists of two programs. The first is owned housing, consisting of 20 units of public housing and the second is the capital funding program. Elk Rapids Housing Commission had total revenues of \$125,080 that includes \$54,352 in rental payments and \$65,130 in federal assistance. Total operating expenses were \$123,364, that includes \$32,208 in administrative expenses, \$31,419 in utilities, \$24,400 in ordinary maintenance expenses, and \$27,689 in depreciation expense. Total revenues increased by \$15,184 from the prior year and operating expenses increased by \$7,839 over the prior year for a net increase of \$1,716, due to increases in utilities and increases in federal capital grants.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$469,086. The Housing Commission's total net assets increased by \$1,716 from the prior year. The increase is attributable in part to the depreciation expense of \$27,689 being less than the \$36,315 spent on capital outlays.

Total assets of the Housing Commission were \$476,723 including \$116,855 of current assets and \$359,868 of net capital assets. The Housing Commission had current liabilities of \$7,637. Assets increased, in part, by \$3,735 from the prior year due to the depreciation expense of \$27,689 being less than the capital outlay of \$36,315 during the fiscal year.

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)

September 30, 2006

=====

**Overview of the Financial Statements**

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

**Commission's current position**

The financial position of Elk Rapids Housing Commission has not changed significantly in the past year. The biggest change is in the cost of utilities. We have not improved or deteriorated financially.

Elk Rapids Housing Commission committed \$10,000 of capital funding '06 to help pay for some of the work performed in '05. Therefore, there is only about \$9,000 left to any improvements this fiscal year. To date no decision has been made as to where or how to spend the remaining amount.

There are no currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations for the coming fiscal year.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Barbara George, Executive Director  
701 Chippewa Street  
Elk Rapids, Michigan 49629



ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)  
September 30, 2006  
=====

**Financial Analysis of the Housing Commission**

The following condensed statement of net assets show a summary of changes for the years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 116,855	\$ 121,746	\$( 4,891)
Capital assets	<u>359,868</u>	<u>351,242</u>	<u>8,626</u>
Total assets	<u>\$ 476,723</u>	<u>\$ 472,988</u>	<u>\$ 3,735</u>
Current liabilities	<u>\$ 7,637</u>	<u>\$ 5,618</u>	<u>\$ 2,019</u>
Total liabilities	<u>7,637</u>	<u>5,618</u>	<u>2,019</u>
Net assets:			
Invested in capital assets	359,868	351,242	8,626
Unrestricted net assets	<u>109,218</u>	<u>116,128</u>	<u>( 6,910)</u>
Total net assets	<u>469,086</u>	<u>467,370</u>	<u>1,716</u>
Total liabilities and net assets	<u>\$ 476,723</u>	<u>\$ 472,988</u>	<u>\$ 3,735</u>

ELK RAPIDS HOUSING COMMISSION  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**  
 (CONTINUED)  
 September 30, 2006  
 =====

**Financial Analysis of the Housing Commission (continued)**

The following table summarizes the statement of activities of the Housing Commission for the years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$ 54,352	\$ 53,540	\$ 812
Total operating revenues	<u>54,352</u>	<u>53,540</u>	<u>812</u>
<b>Operating expenses:</b>			
Administration	32,208	29,367	2,841
Tenant services	2,166	688	1,478
Utilities	31,419	24,552	6,867
Ordinary maintenance and operation	24,400	24,901	( 501)
General expenses	5,482	6,711	( 1,229)
Depreciation	<u>27,689</u>	<u>29,306</u>	<u>( 1,617)</u>
Total operating expenses	<u>123,364</u>	<u>115,525</u>	<u>7,839</u>
Operating income(loss)	<u>( 69,012)</u>	<u>( 61,985)</u>	<u>( 7,027)</u>
<b>Non-operating revenue:</b>			
Interest income	3,614	3,680	( 66)
Other income	1,984	1,209	775
Operating grants	28,815	28,085	730
Capital grants	<u>36,315</u>	<u>23,382</u>	<u>12,933</u>
Total nonoperating revenue	<u>70,728</u>	<u>56,356</u>	<u>14,372</u>
<b>Change in Net Assets</b>	<u>\$ 1,716</u>	<u>\$ ( 5,629)</u>	<u>\$ 7,345</u>

## FINANCIAL STATEMENTS

ELK RAPIDS HOUSING COMMISSION  
**STATEMENT OF NET ASSETS**  
September 30, 2006  
=====

**ASSETS**

Current Assets:

Cash	\$ 19,387
Accounts receivable-HUD	3,835
Investments-unrestricted	91,142
Prepaid expenses	2,101
Inventories	<u>390</u>

Total Current Assets 116,855

Capital Assets:

Land	104,946
Buildings	670,278
Equipment	9,396
Construction in progress	<u>13,774</u>

798,394

Less: accumulated depreciation ( 438,526)

Net Capital Assets 359,868

Total Assets \$ 476,723

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF NET ASSETS (CONTINUED)  
September 30, 2006  
=====

**LIABILITIES and NET ASSETS**

Current Liabilities:	
Accounts payable	\$ 1,632
Accrued expenses	418
Tenant security deposit liability	<u>5,587</u>
Total Current Liabilities	<u>7,637</u>
Total Liabilities	<u>7,637</u>
Net Assets:	
Invested in capital assets	359,868
Unrestricted net assets	<u>109,218</u>
Total Net Assets	<u>469,086</u>
Total Liabilities and Net Assets	<u><u>\$ 476,723</u></u>

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
**STATEMENT OF ACTIVITIES**  
 Year Ended September 30, 2006  
 =====

**OPERATING REVENUES:**

Dwelling rent	\$ 54,352
Total operating revenues	<u>54,352</u>

**OPERATING EXPENSES:**

Administration	32,208
Tenant services	2,166
Utilities	31,419
Ordinary maintenance and operation	24,400
General expenses	5,482
Depreciation	<u>27,689</u>
Total operating expenses	<u>123,364</u>

Operating income(loss)	<u>( 69,012)</u>
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**NONOPERATING REVENUES:**

Investment interest income	3,614
Other income	1,984
Capital grants	36,315
Operating grants	<u>28,815</u>

Total nonoperating revenues	<u>70,728</u>
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Change in net assets	1,716
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Prior period adjustments, equity transfers and correction of errors	( 233)
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Net assets, beginning	<u>467,603</u>
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Net assets, ending	<u>\$ 469,086</u>
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See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF CASH FLOWS  
Year Ended September 30, 2006  
=====

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling rents	\$ 54,352
Cash payments to other suppliers of goods and services	( 59,026)
Cash payments to employees for services	<u>( 36,082)</u>
Net cash (used) by operating activities	<u>( 40,756)</u>

**CASH FLOWS FROM NONCAPITAL  
FINANCING ACTIVITIES:**

Tenant security deposits	1,003
Operating grants	28,815
Other revenue	<u>2,127</u>
Net cash provided by noncapital financing activities	<u>31,945</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES:**

Capital grants	32,480
Payments for capital acquisitions	<u>( 36,315)</u>
Net cash (used) by capital and related financing activities	<u>( 3,835)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investments decreased	21,535
Receipts of interest and dividends	<u>4,674</u>
Net cash provided by investing activities	<u>26,209</u>

Net increase(decrease) in cash	13,563
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Cash, beginning	<u>5,824</u>
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Cash, ending	<u>\$ 19,387</u>
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ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended September 30, 2006  
=====

RECONCILIATION OF CASH AND CASH  
EQUIVALENTS PER STATEMENT OF CASH  
FLOWS TO THE BALANCE SHEET:

Cash and cash equivalents per balance sheet	<u>\$ 19,387</u>
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SCHEDULE RECONCILING OPERATING INCOME  
TO NET CASH FLOW FROM OPERATING  
ACTIVITIES:

Operating income(loss)	\$( 69,012)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	27,689
Adjustments	( 233)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Prepaid expenses	( 59)
Inventories	( 390)
Increase (decrease) in liabilities:	
Accounts payable	1,563
Accrued wages/payroll taxes	<u>( 314)</u>
Net cash (used) by operating activities	<u>\$( 40,756)</u>

See notes to financial statements



ELK RAPIDS HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Elk Rapids Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

Elk Rapids Housing Commission is a component unit of the Village of Elk Rapids. The Housing Commission is a Public Housing Agency created by the Village of Elk Rapids on March 31, 1971, consisting of a five member board appointed by the Village Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Elk Rapids Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3093, the Housing Commission constructed, maintains and operates 20 units of subsidized housing in the Village of Elk Rapids, Michigan.

**Fund Financial Statements**

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing

Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Elk Rapids Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

#### **Insurance**

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

#### **Budgets and Budgetary Accounting**

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

#### **Receivables**

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

#### **Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

### Inventory

Inventory is priced using the average cost method.

### Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Furniture, equipment and machinery	5 years
Building improvements	15 years

### Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

### Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services. Amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

### Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation leave, employees terminating employment for any reason are entitled to payment for all accrued unused

vacation time, calculated on pro rata basis.

- \* Sick leave, there is not a policy for sick leave.
- \* Personal leave, unpaid personal leaves of absence for a period of up to thirty (30) days may be requested. If more time is required for leave, approval is needed by the Commission.

Personal leave may be granted for justifiable reasons and granted only after all accrued unused vacation leave has been exhausted.

The amount of accumulated benefits at September 30, 2006, was minimal, and is not recorded as a liability in the applicable funds.

#### **Post Employment Benefits**

The Housing Commission does not provide any post employment benefits.

#### **Income Taxes**

As a component unit of a Michigan village, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

#### **NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK**

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

#### **Deposits**

At year-end, the carrying amount of the Housing Commission's deposits were \$19,302 and the bank balance was \$23,325 of which \$23,325 was covered by federal depository insurance. The Housing Commission has \$50 in petty cash, \$25 in a change fund, and Laundry equipment change fund of \$10.

#### **Investments**

The Housing Commission had the following investments at the following banks as of September 30, 2006:

Fifth Third Bank-C.D. (#007-0605916492)	\$ 29,001
Fifth Third Bank-C.D. (#605316980)	13,832
LaSalle Bank- C.D. (#870038453-3)	47,228
LaSalle Bank- Savings (#50513)	<u>1,081</u>
	<u>\$ 91,142</u>

*Interest Rate Risk* - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- |                                     |            |
|-------------------------------------|------------|
| 1. U.S. Treasury Notes              | - 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - 75% and  |
| 3. Mortgage Backed Securities       | - 25%      |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$ 85
Carrying amount of deposits	19,302
Investments	<u>91,142</u>
Total	<u>\$ 110,529</u>

Cash and cash equivalents:	
Enterprise activities	\$ 114,552
Enterprise activities - checks written in excess of deposits	( 4,023)
Total	<u>\$ 110,529</u>

**NOTE 3: RECEIVABLES AND PAYABLES**

**Tenant Accounts Receivable**

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2006, there were not any rents owed by tenants.

**Inter-fund Receivables, Payables, and Transfers**

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". The Low Rent Program is owed \$3,835 from the Capital Fund Program as of September 30, 2006.

There were not any Individual fund operating transfers during the fiscal year.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Balance</u> <u>09/30/05</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/06</u>
<b>Low Rent Program</b>			
Land	\$ 104,946	\$	\$ 104,946
Buildings	624,355	23,382	647,737
Furniture, equip. & machinery - administration	9,396		9,396
	<u>738,697</u>	<u>\$ 23,382</u>	<u>762,079</u>
Less accumulated depreciation	<u>( 410,577)</u>	<u>\$( 27,698)</u>	<u>( 438,275)</u>
Total	<u>\$ 328,120</u>		<u>\$ 323,804</u>
<b>Capital Fund Program</b>			
Buildings	\$	\$ 22,541	\$ 22,541
Construction in progress	23,382	( 9,608)	13,774
	<u>23,382</u>	<u>\$ 22,541</u>	<u>36,315</u>
Less accumulated depreciation	<u>( 260)</u>	<u>\$( 251)</u>	<u>( 251)</u>
Total	<u>\$ 23,122</u>		<u>\$ 36,064</u>
<b>Combined Totals</b>			<u>\$ 359,868</u>

**NOTE 5: INVESTED IN CAPITAL ASSETS**

The following is a summary of the activity in the Invested in Capital Assets account:

	Invested in Capital Assets
Balance, beginning	\$ 351,242
Investment in fixed assets, net of depreciation paid for from operations net of depreciation	<u>8,626</u>
Balance, ending	<u>\$ 359,868</u>

**NOTE 6: OTHER INFORMATION****A. Pension Plan**

The Housing Commission does not provide a pension plan for eligible full-time employees.

**B: Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

**C: Risk Management and Litigation**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

**D: Prior Period Adjustments, Equity Transfers and  
Correction of Errors**Low Rent Program

Adjustment of prior year expenses	\$ ( 233)
Transfer net equity completed 501-04 Capital Fund Program	<u>23,122</u>
	<u>\$ 22,889</u>

Capital Fund Program

Transfer net equity completed 501-04 Capital Fund Program	<u>\$ ( 23,122)</u>
--	---------------------

**NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
<b>Condensed Statement of Net Assets</b>		
Current assets	\$ 116,855	\$ 3,835
Capital assets	<u>323,804</u>	<u>36,064</u>
Total assets	<u>\$ 440,659</u>	<u>\$ 39,899</u>
Current liabilities	\$ 7,637	\$ 3,835
Total liabilities	<u>7,637</u>	<u>3,835</u>
Net assets:		
Invested in capital assets	323,804	36,064
Unrestricted net assets	<u>109,218</u>	<u></u>
Total net assets	<u>433,022</u>	<u>36,064</u>
Total liabilities and net assets	<u>\$ 440,659</u>	<u>\$ 39,899</u>
<b>Condensed Statement of Activities</b>		
Dwelling rents	\$ 54,352	\$
Depreciation	( 27,438)	( 251)
Other operating expenses	<u>( 95,675)</u>	<u></u>
Operating(loss)	( 68,761)	( 251)
Nonoperating revenues:		
Investment interest income	3,614	
Other income	1,984	
Capital grants		36,315
Operating grants	<u>28,815</u>	<u></u>
Change in net assets	( 34,348)	36,064
Prior period adjustments, equity transfers and correction of errors	22,889	( 23,122)
Beginning net assets	<u>444,481</u>	<u>23,122</u>
Ending net assets	<u>\$ 433,022</u>	<u>\$ 36,064</u>
<b>Condensed Statement of Cash Flows</b>		
Net cash provided(used) by:		
Operating activities	\$( 40,756)	\$
Noncapital financing activities	28,110	3,835
Capital and related financing activities		( 3,835)
Investing activities	<u>26,209</u>	<u></u>
Net increase(decrease)	13,563	
Beginning cash and cash equivalents	<u>5,824</u>	<u></u>
Ending cash and cash equivalents	<u>\$ 19,387</u>	<u>\$</u>



SUPPLEMENTARY INFORMATION

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
September 30, 2006

=====

	C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 19,387	\$
Accounts receivable-HUD		3,835
Investments-unrestricted	91,142	
Prepaid expenses	2,101	
Inventories	390	
Due from other programs	<u>3,835</u>	
Total current assets	<u>116,855</u>	<u>3,835</u>
Capital assets:		
Land	104,946	
Buildings	647,737	22,541
Equipment	9,396	
Construction in progress		<u>13,774</u>
	762,079	36,315
Less accumulated depreciation	<u>( 438,275)</u>	<u>( 251)</u>
Net capital assets	<u>323,804</u>	<u>36,064</u>
Total Assets	<u>\$ 440,659</u>	<u>\$ 39,899</u>

Totals

\$ 19,387  
3,835  
91,142  
2,101  
390  
3,835

120,690

104,946  
670,278  
9,396  
13,774  
798,394  
( 438,526)

359,868

\$ 480,558

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**  
September 30, 2006

=====

C-3093	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**LIABILITIES and NET ASSETS**

Current liabilities:

Accounts payable	\$ 1,632	\$
Accrued wage/payroll taxes payable	418	
Tenant security deposit liability	5,587	
Due to other programs		<u>3,835</u>
Total current liabilities	<u>7,637</u>	<u>3,835</u>
Total liabilities	<u>7,637</u>	<u>3,835</u>

Net assets:

Invested in capital assets	323,804	36,064
Unrestricted net assets	<u>109,218</u>	
Total net assets	<u>433,022</u>	<u>36,064</u>
Total Liabilities and Net Assets	<u>\$ 440,659</u>	<u>\$ 39,899</u>

Totals

\$ 1,632  
418  
5,587  
3,835

11,472

11,472

359,868  
109,218

469,086

\$ 480,558

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF ACTIVITIES**  
 Year Ended September 30, 2006  
 =====

	C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 54,352	\$
Nondwelling rent	<u>          </u>	<u>          </u>
Total operating revenues	<u>54,352</u>	<u>          </u>
<b>OPERATING EXPENSES:</b>		
Administration	32,208	
Tenant services	2,166	
Utilities	31,419	
Ordinary maintenance and operation	24,400	
General expenses	5,482	
Depreciation	<u>27,438</u>	<u>251</u>
Total operating expenses	<u>123,113</u>	<u>251</u>
Operating income(loss)	<u>( 68,761)</u>	<u>( 251)</u>
<b>NONOPERATING REVENUES AND (EXPENSES):</b>		
Investment interest income	3,614	
Other income	1,984	
Capital grants		36,315
Operating grants	<u>28,815</u>	<u>          </u>
Total nonoperating revenues (expenses)	<u>34,413</u>	<u>36,315</u>
Change in net assets	<u>( 34,348)</u>	<u>36,064</u>
Prior period adjustments, equity transfers and correction of errors	22,889	( 23,122)
Net assets, beginning	<u>444,481</u>	<u>23,122</u>
Net assets, ending	<u><u>\$ 433,022</u></u>	<u><u>\$ 36,064</u></u>

Totals

\$ 54,352

54,352

32,208

2,166

31,419

24,400

5,482

27,689

123,364

( 69,012)

3,614

1,984

36,315

28,815

70,728

1,716

( 233)

467,603

\$ 469,086

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
 Year Ended September 30, 2006

=====

	C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents	\$ 54,352	\$
Cash payments to other suppliers of goods and services	( 59,026)	
Cash payments to employees for services	<u>( 36,082)</u>	
Net cash (used) by operating activities	<u>( 40,756)</u>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Interprogram receivables/payables	( 3,835)	3,835
Tenant security deposits	1,003	
Operating grants	28,815	
Other revenue	<u>2,127</u>	
Net cash provided by noncapital financing activities	<u>28,110</u>	<u>3,835</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants		32,480
Payments for capital acquisitions		<u>( 36,315)</u>
Net cash (used) by capital and related financing activities		<u>( 3,835)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments decreased	21,535	
Receipts of interest and dividends	<u>4,674</u>	
Net cash provided by investing activities	<u>26,209</u>	
Net increase(decrease) in cash	13,563	
Cash, beginning	<u>5,824</u>	
Cash, ending	<u>\$ 19,387</u>	<u>\$</u>



Totals

\$ 54,352

( 59,026)

( 36,082)

( 40,756)

1,003

28,815

2,127

31,945

32,480

( 36,315)

( 3,835)

21,535

4,674

26,209

13,563

5,824

\$ 19,387

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
Year Ended September 30, 2006  
=====

C-3093	Capital	
Low Rent	Fund	
Program	Program	
<u>14.850</u>	<u>14.872</u>	

**RECONCILIATION OF CASH AND CASH  
EQUIVALENTS PER STATEMENT OF  
CASH FLOWS TO THE BALANCE SHEET:**

Cash and cash equivalents per balance sheet	\$ <u>19,387</u>	\$ <u>          </u>
---	------------------	----------------------

**SCHEDULE RECONCILING OPERATING INCOME  
TO NET CASH FLOW FROM OPERATING  
ACTIVITIES:**

Operating income(loss)	\$( 68,761)	\$( 251)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	27,438	251
Adjustments	( 233)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Prepaid expenses	( 59)	
Inventories	( 390)	
Increase (decrease) in liabilities:		
Accounts payable	1,563	
Accrued wages/payroll taxes	<u>( 314)</u>	
Net cash (used) by operating activities	<u>\$( 40,756)</u>	<u>          </u>

Totals

\$ 19,387

\$ ( 69,012)

27,689  
( 233)

( 59)  
( 390)

1,563  
( 314)

\$ ( 40,756)

ELK RAPIDS HOUSING COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS  
Year Ended September 30, 2006  
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	Public and Indian Housing <u>Nonmajor - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 28,815
	Public and Indian Housing <u>Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	<u>36,315</u>
	Total		<u>\$ 65,130</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE**  
Year Ended September 30, 2006  
=====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 19,387	\$
100	Total cash	<u>19,387</u>	
	Receivables:		
122	Accounts receivable-HUD		<u>3,835</u>
	Current Investments:		
131	Investments-unrestricted	<u>91,142</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	2,101	
143	Inventories	390	
144	Interprogram due from	<u>3,835</u>	
	Total other current assets	<u>6,326</u>	
150	Total current assets	<u>116,855</u>	<u>3,835</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	104,946	
162	Buildings	647,737	22,541
164	Furn, equip & mach-admin.	9,396	
166	Accumulated depreciation	( 438,275)	( 251)
167	Construction in progress		<u>13,774</u>
160	Total fixed assets, net of accumulated depreciation	<u>323,804</u>	<u>36,064</u>
180	Total noncurrent assets	<u>323,804</u>	<u>36,064</u>
190	Total Assets	<u>\$ 440,659</u>	<u>\$ 39,899</u>

Totals

\$ 19,387

19,387

3,835

91,142

2,101

390

3,835

6,326

120,690

104,946

670,278

9,396

( 438,526)

13,774

359,868

359,868

\$ 480,558

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2006  
 =====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES AND EQUITY/NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 1,632	\$
321	Accrued wage/payroll taxes payable	418	
341	Tenant security deposits	5,587	
347	Interprogram due to	<u>          </u>	<u>3,835</u>
310	Total current liabilities	<u>7,637</u>	<u>3,835</u>
300	Total liabilities	<u>7,637</u>	<u>3,835</u>
	Equity:		
508.1	Invested in capital assets	<u>323,804</u>	<u>36,064</u>
508	Total equity	323,804	36,064
	Net Assets:		
512.1	Unrestricted net assets	<u>109,218</u>	<u>          </u>
513	Total net assets	<u>433,022</u>	<u>36,064</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 440,659</u>	<u>\$ 39,899</u>

Totals

\$ 1,632

418  
5,587  
3,835

11,472

11,472

359,868

359,868

109,218

469,086

\$ 480,558



ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
Year Ended September 30, 2006  
=====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 54,352	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>54,352</u>	
706	HUD PHA grants	28,815	
706.1	Capital grants		36,315
711	Investment income-unrestricted	3,614	
715	Other revenue	<u>1,984</u>	
700	Total revenue	<u>88,765</u>	<u>36,315</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	19,382	
912	Auditing fees	2,350	
915	Employee benefit contributions-adm.	2,355	
916	Other operating-administrative	8,121	
	Tenant Services:		
924	Tenant services-other	2,166	
	Utilities:		
931	Water	8,617	
932	Electricity	6,299	
933	Gas	16,503	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	13,035	
942	Ordinary maint & oper-mat'ls & other	3,064	
943	Ordinary maint & oper-contract costs	7,305	
945	Employee benefit contributions- ordinary maintenance	996	
	General expenses:		
961	Insurance premiums	<u>5,482</u>	
969	Total operating expenses	<u>95,675</u>	
970	Excess operating revenue over operating expenses	<u>( 6,910)</u>	<u>36,315</u>

<u>Totals</u>	
\$	54,352
<hr/>	
	54,352
	28,815
	36,315
	3,614
	<u>1,984</u>
	<hr/>
	125,080
	<hr/>
	19,382
	2,350
	2,355
	8,121
	 2,166
	 8,617
	6,299
	16,503
	 13,035
	3,064
	7,305
	 996
	 <u>5,482</u>
	 <hr/>
	95,675
	<hr/>
	29,405
	<hr/>

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2006  
 =====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Expenses continued:</b>		
	Other expenses:		
974	Depreciation expense	<u>27,438</u>	<u>251</u>
	Total other expenses	<u>27,438</u>	<u>251</u>
900	Total expenses	<u>123,113</u>	<u>251</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	( 34,348)	36,064
1104	Prior period adjustments, equity transfers and correction of errors	22,889	(23,122)
1103	Beginning Net Assets	<u>444,481</u>	<u>23,122</u>
	Ending Net Assets	<u>\$ 433,022</u>	<u>\$ 36,064</u>

Totals

27,689

27,689

123,364

1,716

( 233)

467,603

\$ 469,086

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
Elk Rapids Housing Commission  
Elk Rapids, Michigan

I have audited the financial statements of the business-type activities of the Elk Rapids Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated February 23, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated February 23, 2007.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws,

Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*  
Elk Rapids Housing Commission  
Page Two

***Compliance and Other Matters - Continued***

regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated February 23, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Barry E. Landolt, CPA*

February 23, 2007

ELK RAPIDS HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
MARCH 31, 2006

=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
-----------------------	---------------------	--------------	---------------

LOW RENT PROGRAM

There were no adjusting journal entries.

ELK RAPIDS HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2006



**ELK RAPIDS HOUSING COMMISSION**  
**CONTENTS**  
**SEPTEMBER 30, 2006**

	<u>Page</u>
Independent Auditors' Report on Communications With the Audit Committee/Board of Commissioners	1-2
Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4-6
Adjusting Journal Entries	7

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Elk Rapids Housing Commission

I have audited the financial statements of the Elk Rapids Housing Commission ("Housing Commission") as of and for the year ended September 30, 2006, and have issued my report, thereon, dated February 23, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 8 showing the audit adjusting journal entries, of which there were none).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

*Barry E. Landolt, CPA, PC*

February 23, 2007

**Barry E. Gaudette, CPA, PC.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
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**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Elk Rapids Housing Commission

I have audited the financial statements of the Elk Rapids Housing Commission ("Housing Commission") as of and for the year ended September 30, 2006, and have issued my report, thereon, dated February 23, 2007. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, PC*

February 23, 2007

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
September 30, 2006  
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**Invoice Approval**

The Housing Commission internal controls for the payment of invoices are as follows: The disbursement checks are prepared at least twice a month and signed by the Executive Director. A Commissioner also, reviews the documentation supporting the payment before signing the second signature. At the Boards monthly meeting, the Board will review a listing of paid checks and any others that need to be paid and then approve the payments.

The Michigan Department of Treasury requires that the board approve all invoices prior to payment unless addressed otherwise in the charter. The board may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the board for approval.

**Tenant Services Disbursements**

The Housing Commission has spent all of the monies received in the operating subsidy for tenant services, but there is not a resident council in place to decide how these monies should be spent.

I recommend the Housing Commission continue to try and have the tenants to form a resident council.

**Credit Card Support**

The Housing Commission pays many bills by credit card, but the support for the disbursements, in many cases, kept separate from the credit card statement. This has been done so that the same type of expenditure can be filed together.

I recommend the Housing Commission attach the support for the credit card expenditure to the credit card statement to provide a better audit trail.

ELK RAPIDS HOUSING COMMISSION  
**MANAGEMENT ADVISORY COMMENTS**  
 (CONTINUED)

September 30, 2006

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**Tenant Files**

We selected at random five(5) low rent tenant files to thoroughly test. The results are as follows:

Low Rent Program

	<u># of Exceptions</u>
a. HUD Form 50058	1
b. Privacy Act Notice	4
c. Proper Verification of Income	3
d. Proper Verification of Expenses	3
e. Proper Verification of Assets	4
f. Inspection Report	5
g. Lease	2
h. Application	0
i. Picture ID	1
j. Proof of Social Security Number	1
k. Birth Certificate	2
l. Annual Review	1
m. Worksheet for HUD Form 50058	0
n. Notice of Rent Adjustment	1
o. Criminal Background Check	5
p. Declaration of 214 Status (citizenship)	<u>0</u>
	<u>33</u>

Out of a possible 80, there were 33 exceptions. This is an exception rate of 41.3%.

The following is a short summary of exceptions:

File	Client #	1	2	3	4	5	6	7	8
1	1	x	x		x			x	
2	5	x			x	x		x	
3	9	x	x		x			x	
4	14	x	x					x	
5	18	x	x	x	x			x	
Number of Hits		5	4	1	4	1	0	5	0
% of Hits		100%	80%	20%	80%	20%	0%	100%	0%

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
(CONTINUED)

September 30, 2006

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**Tenant Files (continued)**

**Legend**

- 1 Criminal background check not conducted;
- 2 Income/expense/asset verification not conducted;
- 3 Form HUD-50058 was submitted to HUD, but we could not locate the form in the tenant files;
- 4 HUD Form 9886, Release of Information/Privacy Act Notice, not signed and/or dated for the fiscal year;
- 5 Social security number not verified with required documentation;
- 6 The Housing Commission could not locate the file;
- 7 The Housing Commission could not locate missing documents; and
- 8 The tenant was not eligible for the program.

During testing of tenant files, it was discovered that the majority of verifications of income, expenses, and assets were missing from the tenant files. Also, we could not find the required documentation to support that inspections were performed. We also, found that criminal background checks are not done on the tenants.

We recommend that independent written third party income, expenses, and asset verifications be obtained. If it is not possible to obtain independent written third party verifications, alternative verifications may be used. We recommend that each unit be inspected at least annually as well as quality control inspections and then filed with the tenant file. We also, recommend that criminal background checks be done on the current tenants and any future tenants.

ELK RAPIDS HOUSING COMMISSION

**ADJUSTING JOURNAL ENTRIES**

September 30, 2006

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FDS  
Line Number    Account Name                      Debit    Credit

LOW RENT PROGRAM:

It was not necessary to make adjusting journal entries.